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GTE Service Corporation

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May 29, 1998

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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

Ms. Magalie R. Salas  
Secretary  
Federal Communications Commission  
1919 M Street, N.W., Room 222  
Washington, DC 20554

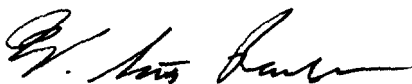
**Ex Parte:**      **Federal-State Joint Board on Universal Service, CC Docket 96-45**  
                         **Access Charge Reform, CC Docket 96-262**

Dear Ms. Salas,

The attached letter was delivered today to Richard Lerner of the Common Carrier Bureau regarding recovery of universal service contributions and revisions to interstate access charges. Please include this letter in the record in the proceedings indicated above.

If you have any questions regarding this matter, please call me at (202) 463-5293.

Sincerely,



W. Scott Randolph  
Director - Regulatory Matters

cc:     Jane Jackson  
         Richard Lerner  
         Jim Schlichting

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May 29, 1998

Mr. Richard Lerner  
Deputy Chief, Competitive Pricing Division  
Common Carrier Bureau  
Federal Communications Commission  
1919 M Street, N.W., Room 518  
Washington, DC 20554

Dear Mr. Lerner,

You had requested GTE's opinion on recent *ex parte* filings made by AT&T and MCI regarding a suggestion by NTIA to fund the Schools and Library and Rural Health Care programs by assessing a \$1 per month charge on every telephone line and wireless number. In addition, you requested we provide estimates of what GTE's universal service contribution would be if converted to a per line charge, the effect on per minute CCL rates if all PICC charges were reduced to \$0.00 for a six month period, and the effect on the CCL rate if only the non-primary residential PICC charge was reduced to \$0.53 per line. Following are GTE's responses to your questions.

Universal Service Recovery Method - We wholeheartedly agree with AT&T and MCI that the current universal service recovery method is flawed and should be changed. However, the specific proposal offered by NTIA, as well as AT&T and MCI's amendments, is not reasonable. While the current method shifts much of the recovery to the IXCs, their proposal would shift all of the recovery onto the LECs. In our view, neither extreme makes sense.

GTE suggests the Commission adopt a more straightforward approach that accomplishes much of what the IXCs say they want and one that would fairly distribute the contribution burden among all industry participants. The best way to address the concern raised by AT&T and MCI is to apply the retail revenue basis consistently. We propose that each carrier's contribution should continue to be based on retail revenue and that each carrier would be able to recover its contribution through a separate line item to its own retail customers in proportion to the customer's retail bill. In this way, LECs would not pass through contributions in their wholesale rates for access and access rates would go down as a result.

This approach would also spread the burden of funding in a more equitable manner. In contrast, a per-line approach would have a different distributional effect from a retail revenue approach – it would shift a greater share of the burden to low-volume customers. For example, given the current contribution rate of 0.72%, a customer who purchases local service at a nationwide average rate of about \$18, but who does not make any toll calls or purchase any other services, should see a surcharge on the LEC's bill of about 15 cents -- not the \$1 proposed by NTIA and advocated by MCI. If the customer chooses to make long distance calls, then the customer should see a corresponding surcharge on the bill from the IXC.

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Finally, GTE believes universal service recovery methods should be competitively neutral among carriers. The Commission cannot limit LEC's recovery of their contributions only through access charges while at the same time allowing other carriers freedom to recover their contribution in any manner they choose. For this reason, GTE has consistently advocated that all carriers include an explicit charge on their bills reflecting a proportion of the consumer's total retail revenue.

Attached for your review is a more thorough analysis of NTIA's \$1 proposal as well as GTE's suggested alternative.

Flat-rate Billing of GTE's Universal Service Contribution – As stated above, we believe an assessment based on the proportion of a customer's retail bill to be far superior to a flat rate mechanism. However, if GTE were required to assess a flat rate charge per line to recover its expected contribution to the universal service fund, it is estimated the average charge among all GTE telephone companies would be approximately \$0.61 per line based on expected contribution rates announced by the Commission. This amount assumes a portion of the USF contribution will continue to be recovered in the Trunking basket as it is today and assumes no recovery from the Interexchange Basket customers.

To the extent that this charge would be included as a separate line item on the customer's bill, as we have advocated, GTE would require at least a one-month notice in order to modify end user billing systems to reflect a new charge. In addition, any flat rate contribution scheme should be temporary, only until January 1, 1999. GTE believes a final determination of the proper recovery mechanism should be linked to Commission decisions regarding the high cost fund – most notably the selection of a cost model and overall state/federal funding plans.

Effect of Adjusting PICC Charges - We estimate that the average GTE terminating per minute CCL charge would increase approximately \$0.0069 per minute if all PICC charges were reduced to \$0.00, based on data submitted in the access reform filings effective January 1, 1998. If the non-primary residential PICC is set at \$0.53 and all other PICC rates remain the same; the terminating CCL rate would be increased, on average, by \$0.00025 per minute. GTE would be able to implement such a change effective July 1, 1998. Attached is a schedule displaying these rate effects for all GTE entities.

Given the substantial amount of customer confusion regarding the application of the PICC charge and its pass-through by the IXCs, GTE would not object to converting the current PICC charges to a per minute charge for an interim period. Most importantly, this would allow time for the Commission to reevaluate its earlier decision regarding common line recovery, particularly in light of the Commission's announcements to reassess the amount of federal

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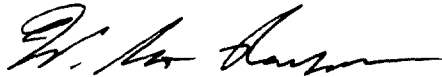
Universal service funding that will be used to offset implicit subsidies in interstate access charges.

GTE has, on numerous occasions, objected to the application of different rates to primary and non-primary lines. We have also expressed our concern regarding the significant administrative difficulties as well as substantial customer dissatisfaction resulting from implementing this aspect of the Commission's access charge reform decisions. GTE would fully support equalizing the rates for primary and non-primary residential lines. To the extent the Commission makes such changes to the PICC structure, it should do so for the Subscriber Line Charge as well.

Thank you for the opportunity to respond to the various USF funding proposals put forth by NTIA, AT&T and MCI. To the extent we are able to update the USF per line and PICC charge impacts based on more current data, we will provide those to you as soon as possible.

If you have any questions or need additional information, please contact me on (202) 463-5293.

Sincerely,

A handwritten signature in black ink, appearing to read "W. Scott Randolph", written in a cursive style.

W. Scott Randolph  
Director - Regulatory Matters

Attachments

## **GTE RESPONSE TO THE NTIA PROPOSAL**

In recent *ex partes* filed with the Commission, AT&T and MCI expressed their views concerning a proposal from the National Telecommunications and Information Administration (NTIA) ("NTIA Proposal") to implement a per-line recovery of contributions to the school and libraries fund.<sup>1</sup> Following is GTE's response to both the NTIA proposal and the AT&T and MCI responses.

GTE agrees with AT&T and MCI that the current universal service recovery method is flawed and should be changed. However, the suggestion offered by NTIA, and amended by AT&T and MCI, is not reasonable. While the current method shifts recovery to the IXC's, their proposal would shift all of the recovery onto the LEC's. Neither extreme makes sense.

GTE proposes a more straightforward approach that accomplishes much of what the IXC's say they want. However, this alternative would fairly distribute the contribution burden among all industry participants.

GTE proposes that:

- Each carrier's contribution should continue to be based on retail revenue.
- Each carrier would be able to recover its contribution through a separate line item to its own retail customers.
- ILECs would not pass through contributions in their wholesale rates for access.

This would address concern raised by IXC's, and access rates would go down as a result.

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<sup>1</sup> AT&T Ex Parte, CC Docket No. 96-45, May 19, 1998 ("AT&T") and MCI Ex Parte, CC Docket Nos. 96-45 and 97-250 ("MCI").

- But IXC's would not escape contribution based on their own retail revenues. This would address ILEC concern raised by AT&T/MCI proposal.

## **I. BACKGROUND — NATURE OF THE PROBLEM**

AT&T/MCI are concerned that ILECs are passing through their contributions to the school/library fund to IXC's through their access charges. This happens because the Commission has ordered the ILECs to do it this way. Through a series of unfortunate decisions, the Commission has foreclosed the ILECs' opportunities to recover their contributions through charges to the ILECs' own retail customers.

The Commission correctly determined that retail revenue should be the base for contributions. Counting only retail revenue ensures that wholesale transactions will not be double counted. But in implementing the school/library fund, the Commission departed from the sound principles it had established: even though contributions are calculated on total retail revenue (state and interstate), recovery is only permitted through interstate rates.

The base for recovery should be the same as the base on which contributions are calculated. The Commission's approach violates this principle. The effect is to create vastly different effective "tax" rates on different firms' interstate rates. The Commission has already recognized this problem in the case of wireless carriers, permitting them to surcharge based on a customer's total bill.

However, ILECs are precluded from any surcharge or passthrough on state rates, even though this is their primary source of retail revenue. Within the interstate jurisdiction, the ILECs' main source of retail revenue is the SLC. But the Commission's order does not permit any surcharge or passthrough on SLCs. Thus, even though the

system is supposed to be based on retail revenue, the Commission has precluded the ILECs from recovering their school/library contribution from their own retail customers.

The only alternative remaining, and the one the Commission ordered the ILECs to implement, was to pass through to IXCs in the form of access charges. GTE agrees with AT&T/MCI that this approach is inconsistent with a retail revenue system. Since ILEC contributions are based on their retail revenue, they should be recovered through retail transactions, and not on wholesale transactions. IXCs pay into the fund on the basis of their own retail revenue, and, in addition, they pay higher wholesale rates for access that reflect contributions the ILECs should have recovered from their own retail customers.

## **II. THE SOLUTION PROPOSED BY NTIA IS NOT REASONABLE**

NTIA proposes that the entire burden of funding the school/library fund should be shifted to the ILECs, and billed by them to end users through a per-line charge. The NTIA proposal is supported by MCI (MCI at 4). While AT&T claims to take no position on the NTIA solution, it seems to offer qualified support by outlining a number of alternative methods of implementing the NTIA plan. Neither the NTIA solution nor AT&T's alternatives are reasonable for several reasons:

First, it would shift the entire burden of funding the school/library program onto local exchange carriers. This is not consistent with the requirement of Section 254 that all carriers contribute to universal service on an equitable and nondiscriminatory basis. On a retail revenue basis, the IXC contribution to the fund (not counting the passthrough to access charges) would be roughly equal to the contribution made by ILECs (about \$1.1 Billion each). GTE recognizes the problem for IXCs created by the passthrough,

but this does not mean -- as AT&T/MCI suggest -- that the IXCs should escape contributing on the basis of their own retail revenue.

Second, there is no good reason to recover these funds on a per-line basis. The costs of supporting schools and libraries are generated by a completely different process, and are certainly unrelated to the number of local lines a carrier provides. This part of the proposal is particularly remarkable: there are already costs caused by end-users on a per-line basis, namely non-traffic sensitive loop costs. A large proportion of these costs are not recovered from end-users on a per-line basis, because the Commission has not been willing to assess subscriber line charges which would fully cover those costs. If the Commission is now willing to allow a higher level of end-user per-line charges to be assessed, then LECs should be recovering more NTS cost through higher SLCs, rather than using a SLC-like charge to recover costs which are not line-related. Put another way, it makes no sense to have a per-line end-user charge for schools, while at the same time we have CCL and PICC charges to recover loop costs.

Third, the Commission has already assembled a complete record on the idea of assessing USF contributions on a per-unit basis, such as per-line. The Commission concluded, correctly, that such an approach would never be equitable, or competitively neutral, because telecommunications services are provided in different units, and it would then be necessary to devise some equivalency scheme to allow different services, such as copper-based lines, wireless services, and high-capacity digital services, to be compared.



MCI itself acknowledges this problem in its ex parte, when it says that some alternative to a per-line approach would have to be developed for high-capacity services. MCI at 4. As the Commission has already correctly found, a revenue basis avoids this problem, since a revenue measure is effectively self-weighting, where the price of the service measures the amount of service being provided.

Fourth, a per-line approach would have a different distributional effect from a retail revenue approach; AT&T/MCI would shift a greater share of the burden to low-volume customers. Given the current contribution rate of 0.72%, a customer who purchases local service at a nationwide average rate of about \$18, but who does not make any toll calls or purchase any other services, should see a surcharge on the ILEC bill of about 15 cents -- not the \$1 proposed by NTIA and advocated by MCI. If the customer chooses to make long distance calls, then the customer should see a corresponding surcharge on the bill from the IXC.

### **III. THE BEST WAY TO ADDRESS THE CONCERN RAISED BY AT&T/MCI IS TO APPLY THE RETAIL REVENUE BASIS CONSISTENTLY**

The Commission has created the problem AT&T/MCI complain of, because the Commission has not implemented its retail revenue approach consistently. The solution is not, as AT&T/MCI suggest, to add yet another illogical band-aid on top of what's already there. The solution is to implement the retail revenue system in a straightforward, consistent way, both for contributions and for recovery. This will address the concern AT&T/MCI raise, and will produce an outcome that will look, in some ways, like what AT&T/MCI propose. However, it will be more competitively neutral, and more fair, to customers as well as to carriers.

Each carrier's contribution should be based on its total retail revenue (state and interstate), as current rules specify. Each carrier should be allowed to create a separate line item on the customer's bill to recover its contributions. This should be an interstate charge based on the contribution percentage times the customer's retail bill (state and interstate). The result would be an end-user charge, much like the one proposed by NTIA. If the Commission is willing to impose a \$1 charge, as suggested by NTIA, then it certainly should be willing to impose a charge based on a percentage of the customer's retail bill. Essentially, this is what wireless carriers are permitted to do today.

The proportion of the fund recovered by ILECs would increase substantially, and per-minute access charges would be reduced. The main concerns of AT&T/MCI would thus be addressed. No recovery would be made through wholesale charges.

However, IXCs would contribute based on their own retail revenues. They would thus not escape contributions entirely, as AT&T/MCI propose. IXCs would recover their contributions through a separate line item charge, just as ILECs and other carriers would. As MCI points out in its ex parte, a clearly labeled, explicit charge would actually be more readily accepted by customers. MCI at 1.

The concern raised by AT&T/MCI with respect to IXCs billing a flat per-line charge is eliminated. The charge would be a separate item, but would be proportional to customer's retail bill — the customer who makes no long distance calls in a month would not see any charge. Because the charge would be proportional to customer's retail bill, the burden of school/library support would be

spread in a more equitable manner, and the impact on small customers would be less. If, as AT&T/MCI suggests, an average flat rate of \$1 would provide the necessary revenue, then a low-usage customer would pay substantially less than \$1 under GTE's proposal.

Customers who purchased more would contribute more. However, high-usage customers would not contribute as they do today as when the entire recovery burden is placed on access charges. This proposal would be competitively neutral, because all carriers and services would contribute on the same basis. Different services and new services that don't use "lines" in the conventional sense, can be accommodated without the need for arbitrary adjustments or equivalency formulas.

#### **IV. CONCLUSION**

GTE encourages the Commission not to adopt a universal service recovery methodology that shifts all of the recovery onto the LECs and eliminates all the IXC responsibility for funding universal service. Nor should the Commission continue with its current approach. The Commission should immediately implement a process whereby each carrier's contribution would continue to be based on retail revenue and each carrier would be able to recover its contribution through a separate line item to its own retail customers.

Impact of PCCC Rate Changes

GTE	Annual PCCC Common Line	Total Term Chargeable CCL MOU	PCCC Revenue Per MOU	NonPrim Res And BRI ISDN Units	NonPrim Res And BRI ISDN PCCC Rate	Proposed NonPrim Res PCCC Rate	Difference PCCC Rate	Annual NonPrim Res PCCC Rev	Total Term Chargeable CCL MOU	NonPrim Res PCCC Rev Per MOU
ALABAMA	1,468,242	287,365,188	0.0051	28,548	1.50	0.53	0.97	27,692	287,365,188	0.00010
ALASKA	282,266	27,535,699	0.0103	2,736	1.50	0.53	0.97	2,654	27,535,699	0.00010
ARKANSAS	800,785	141,876,345	0.0057	15,284	1.50	0.53	0.97	14,806	141,876,345	0.00010
CALIFORNIA	40,244,280	4,941,524,956	0.0081	1,746,372	1.50	0.53	0.97	1,693,981	4,941,524,956	0.00034
CALIFORNIA-WC	154,043	15,045,346	0.0102	2,244	1.50	0.53	0.97	2,177	15,045,346	0.00014
FLORIDA	26,482,825	3,705,180,306	0.0071	1,139,520	1.50	0.53	0.97	1,105,334	3,705,180,306	0.00030
HAWAII	8,337,802	1,117,001,343	0.0075	104,928	1.50	0.53	0.97	101,780	1,117,001,343	0.00009
IDAHO	1,130,674	292,091,121	0.0039	32,388	1.50	0.53	0.97	31,416	292,091,121	0.00011
ILLINOIS	7,234,390	968,150,112	0.0075	139,260	1.50	0.53	0.97	135,082	968,150,112	0.00014
INDIANA	7,762,621	1,277,942,663	0.0081	219,120	1.50	0.53	0.97	212,546	1,277,942,663	0.00017
IOWA	1,225,508	194,445,949	0.0083	19,188	1.50	0.53	0.97	18,612	194,445,949	0.00010
KENTUCKY	3,967,739	749,636,966	0.0053	105,286	1.50	0.53	0.97	102,129	749,636,966	0.00014
MICHIGAN	7,304,207	897,738,213	0.0081	194,724	1.50	0.53	0.97	188,882	897,738,213	0.00021
MINNESOTA	31,083	4,994,083	0.0062	408	1.50	0.53	0.97	396	4,994,083	0.00008
MISSOURI	1,244,925	191,343,222	0.0065	52,428	1.50	0.53	0.97	50,855	191,343,222	0.00027
NEBRASKA	559,308	95,233,509	0.0059	12,708	1.50	0.53	0.97	12,327	95,233,509	0.00013
NEW MEXICO	538,679	88,456,491	0.0081	17,384	1.50	0.53	0.97	16,843	88,456,491	0.00019
NORTH CAROLINA	2,174,092	427,329,334	0.0051	74,892	1.50	0.53	0.97	72,645	427,329,334	0.00017
OHIO	8,188,467	1,126,725,578	0.0073	194,808	1.50	0.53	0.97	188,964	1,126,725,578	0.00017
OKLAHOMA	1,127,891	183,207,813	0.0062	69,960	1.50	0.53	0.97	67,861	183,207,813	0.00037
OREGON	5,021,603	874,264,424	0.0057	167,026	1.50	0.53	0.97	162,017	874,264,424	0.00019
PENNSYLVANIA	5,396,842	777,885,258	0.0069	122,604	1.50	0.53	0.97	118,926	777,885,258	0.00015
SOUTH CAROLINA	2,041,267	368,106,936	0.0055	44,892	1.50	0.53	0.97	43,545	368,106,936	0.00012
TEXAS	15,057,936	2,360,847,035	0.0064	1,233,408	1.50	0.53	0.97	1,196,406	2,360,847,035	0.00051
VIRGINIA	350,538	63,045,384	0.0056	5,292	1.50	0.53	0.97	5,133	63,045,384	0.00008
WASHINGTON	7,473,801	1,242,005,289	0.0060	472,486	1.50	0.53	0.97	458,313	1,242,005,289	0.00037
WISCONSIN	4,785,364	660,074,570	0.0072	101,004	1.50	0.53	0.97	97,974	660,074,570	0.00015
MTC	191,317	13,513,616	0.0142	2,076	1.50	0.53	0.97	2,014	13,513,616	0.00015
TOTAL GTE	160,574,475	23,092,566,752	0.0070	6,320,940	1.50	0.53	0.97	6,131,312	23,092,566,752	0.00027
CONTEL										
ALABAMA	1,005,288	142,688,504	0.0070	15,792	1.50	0.53	0.97	15,318	142,688,504	0.00011
ARIZONA - WEST	95,390	11,699,141	0.0082	432	1.50	0.53	0.97	419	11,699,141	0.00004
ARKANSAS	1,199,994	194,329,709	0.0062	44,844	1.50	0.53	0.97	43,499	194,329,709	0.00022
CALIFORNIA	3,413,694	427,802,386	0.0080	55,428	1.50	0.53	0.97	53,765	427,802,386	0.00013
ILLINOIS	1,805,186	289,157,661	0.0062	32,640	1.50	0.53	0.97	31,661	289,157,661	0.00011
INDIANA	1,819,872	249,863,314	0.0073	38,532	1.50	0.53	0.97	37,376	249,863,314	0.00015
IOWA	1,499,854	242,348,573	0.0062	36,420	1.50	0.53	0.97	35,327	242,348,573	0.00015
KENTUCKY	815,529	125,339,285	0.0065	14,808	1.50	0.53	0.97	14,364	125,339,285	0.00011
MINNESOTA	1,054,270	168,034,805	0.0063	40,332	1.50	0.53	0.97	39,122	168,034,805	0.00023
MISSOURI	2,835,420	441,377,653	0.0064	75,156	1.50	0.53	0.97	72,901	441,377,653	0.00017
NEVADA	336,323	82,385,830	0.0041	21,996	1.50	0.53	0.97	21,336	82,385,830	0.00026
NEW MEXICO	433,621	75,671,139	0.0057	9,240	1.50	0.53	0.97	8,963	75,671,139	0.00012
NORTH CAROLINA	1,072,987	188,221,377	0.0057	24,708	1.50	0.53	0.97	23,967	188,221,377	0.00013
PENNSYLVANIA	1,008,688	163,761,266	0.0062	43,920	1.50	0.53	0.97	42,602	163,761,266	0.00026
SOUTH CAROLINA	214,546	45,736,481	0.0047	7,596	1.50	0.53	0.97	7,368	45,736,481	0.00016
TEXAS	2,133,223	272,686,238	0.0078	108,660	1.50	0.53	0.97	105,400	272,686,238	0.00039
VIRGINIA	5,195,133	998,108,729	0.0052	247,776	1.50	0.53	0.97	240,343	998,108,729	0.00024
WASHINGTON	813,354	127,009,828	0.0064	26,556	1.50	0.53	0.97	25,759	127,009,828	0.00020
TOTAL GSTC	26,752,374	4,246,221,740	0.0063	844,836	1.50	0.53	0.97	819,491	4,246,221,740	0.00019
COMBINED	187,326,849	27,338,788,491	0.0069	7,165,776	1.50	0.53	0.97	6,950,803	27,338,788,491	0.00025